

May 5, 2010

**CARE REVISES RATINGS OF LT RATINGS OF SADBHAV ENGINEERING LTD.
AND REAFFIRMS ST RATINGS.**

CARE has revised the long-term bank facilities ratings of Sadbhav Engineering Limited (SEL) from '**CARE AA-** (Double A Minus) to '**CARE A+** (Single A Plus) and reaffirmed '**PR1+** (PR One Plus) rating assigned to the short-term bank facilities. Further, CARE has reaffirmed a '**PR1+** (PR One Plus) rating assigned to the proposed STD (including CP) issue for an amount upto Rs.100 crore of SEL. The STD / CP limit is to be carved out of the sanctioned working capital facility of the company. Also, CARE has revised rating assigned to outstanding Non Convertible Debenture from '**CARE AA-** (Double A Minus) to '**CARE A+** (Single A Plus).

Facilities/Instruments with 'Single A' ratings are considered offer adequate safety for timely servicing of debt obligations. Such facilities/ instruments carry low credit risk. Facilities/Instruments with PR1 rating are considered to have strong capacity for timely payment of short-term debt obligations and carry lowest credit risk.

CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Facilities	Amount (Rs. crore)	Rating
Long-term Bank facilities	175.00	CARE A+
Long-term/ Short-term bank facilities	1000.00	CARE A+/PR1+
Non Convertible Debenture	30.00	CARE A+
Proposed CP/STD	100.00	PR1+

Rating Rationale

The revision in the long-term rating is on account of shifting of business model towards developer marked by increasing exposure to BOT projects (through SPVs, which are in the project phase) as compared to existing net worth of the company and increasing equity commitment for the same. Expecting robust growth in the cash accrual from these BOT projects mainly due to benefit of the fall in the commodity prices subsequent to the award of contract, strength of the individual project in terms of earning higher internal rate of return and proven project execution capabilities as a EPC contractor, SEL plans to fund substantial portion of the equity commitment for these BOT projects from the free cash accrual of these projects themselves (generated during construction phase as EPC contractor). However, the cash flow position can come under pressure in the event of deviation in the quantum and timing in generation of operating cash flow in SEL as an EPC contractor which can potentially increase the working capital requirement including reliance on short-term debt where replacement risk persist. Rating revision also considers delay in realization of the some of the debtors & advances granted to overseas venture. At the same time SEL, debt coverage indicators are expected to remain adequate over the long-term, with healthy cash accruals and low debt repayment obligations.

The ratings continue to factor in the strong order book position with good revenue visibility in the medium term, experienced management, good financial flexibility & profitability margins, growing geographical spread for the projects and thrust of the Government on the infrastructure sector.

The long-term rating, however, continues to be constrained by fragmented nature of industry, lower bargaining power, as majority of the customers are government bodies, sensitivity of margins to the raw material prices and other risks associated with BOT projects.

Change in the credit profile due to higher than expected debt funding, status of financial closure for BOT projects and timely completion of these projects without any cost overruns, timely generation of expected free cash accrual from the ongoing BOT projects, and achieving optimum rate of return from overseas exposure in the medium term are key rating sensitivities.

Company Background

Sadbhav Engineering Limited (SEL) was incorporated in 1988, as a private company. SEL is mainly driven by the leadership of Mr. Vishnubhai M. Patel (Chairman & Managing Director), and is one of the largest BOT developers in the road sector in India with good project execution skills.

SEL operates in four distinct business areas in the infrastructure sector viz. BOT road projects, cash contract based road projects, canal and mining. SEL has shown strong growth in order book position during last one year to Rs.7389 crore as on Feb.28, 2010. SEL has BOT portfolio of nine projects including recently awarded three BOT road projects (which are in preliminary stage), out of which 2 are operational, 2 in advance stage of execution, three has achieved financial closure and balance are in process of achieving financial closure. Investment/ advances to BOT projects had increased from Rs.132 crore as on Mar.31, 2009 to Rs.213 crore as on Dec.31, 2009, out of which certain investments were funded from the debt. Going forward, exposure to BOT projects through SPVs are expected to increase above 60% of standalone net worth.

During FY09, SEL reported total income of Rs.1062 crore (P.Y.: Rs.878 crore) and PAT of Rs.63 crore (P.Y.:Rs.52 crore). During 9MFY10, SEL reported total income of Rs.800 crore and PAT of Rs.52 crore.

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